Vornado® INC.

1947

20 YEARS OF GROWTH

1966

ANNUAL REPORT

FOR THE FISCAL YEAR ENDED JANUARY 31, 1967

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EXECUTIVE OFFICES
174 Passaic Street, Garfield, N. J.

GENERAL COUNSEL
Zissu, Halper & Martin

AUDITORS
Peat, Marwick, Mitchell & Co.

REGISTRAR
Franklin National Bank

TRANSFER AGENT
Bankers Trust Company

COVER ILLUSTRATIONS—

TOP: Original Two Guys 20x40 sq. ft. store in Harrison, N. J.

BOTTOM: Two Guys, Lancaster, Pa., opened November 1966 (112,000 sq. ft.)

DIRECTORS

FREDERICK ZISSU*, *Chairman of the Board and of the Executive Committee*

ALFRED B. AVERELL, *Vice President, Bache & Co., Inc., Member New York Stock Exchange*

DR. CHARLES M. EDWARDS, JR., *Dean, New York University Institute of Retail Management*

DONALD B. GOMES*, *Executive Vice President*

MURRAY J. SIEGEL*, *President and Chief Executive Officer*

STANLEY SIMON, *Partner, Stanley Simon and Associates*

LEO ZWIEBACH*, *Vice President*

* Members of Executive Committee

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LEO ZWIEBACH, *Vice President*

BERNARD MARCUS, *Vice President*

H. ROBERT ZIMMERMAN, *Vice President*

HERBERT ROSENBLUTH, *Treasurer*

ALVIN C. MARTIN, *Secretary*

Vornado® INC. AND SUBSIDIARIES
AND RELATED REAL ESTATE CORPORATIONS

COMPARATIVE HIGHLIGHTS

FOR THE TWELVE-MONTHS ENDED JANUARY 31

	1967	1966
Net Sales, Including Leased Departments	$331,867,634	$258,855,428
Leased Department Sales	13,273,281	11,630,036
Net Earnings Before Federal Income Taxes	14,275,679	14,736,748
Provision for Federal Income Taxes	6,100,000	6,725,000
Net Earnings	8,175,679	8,011,748
Net Earnings Per Share*	2.24	2.29
Number of Shares Outstanding*	3,642,534	3,492,592

* Based on number of shares outstanding at end of fiscal years, with 1966 figures adjusted for 2½-for-1 split effective March 28, 1966.

BOARD OF DIRECTORS

Left to right:
Dr. Charles M. Edwards, Jr.
Donald B. Gomes
Alfred B. Averell
Frederick Zissu (Chairman)
Murray J. Siegel
Stanley Simon
Leo Zwiebach

TO OUR SHAREHOLDERS:

Vornado marked its 20th Anniversary Year with record sales and earnings.

For the fiscal year ended January 31, 1967, sales amounted to $331,867,634, an increase of 28% over the $258,855,428 reported for the previous twelve month period. Net earnings rose 2% to $8,175,679 as compared to $8,011,748 for the previous fiscal year. Per share earnings for fiscal 1967 amounted to $2.24 based on 3,642,534 shares of common stock outstanding as compared to $2.29 per share on the 3,492,592 shares outstanding at the end of the previous fiscal year (adjusted for 2½ for 1 split effective March 28, 1966).

Despite the fact that new records were established, the management of the company would have preferred that earnings kept closer pace with sales. That they did not was due chiefly to higher interest costs, extraordinary electronic data processing outlays, heavier store opening expenses and increased labor and operating costs. The unprecedented growth placed strains on the organization and pointed out areas which required correction and strengthening. We expect our efforts in tightening controls and in increasing efficiencies to result in substantial improvement in earnings, particularly in the second half of the current year.

Our 20th year also marked the greatest expansion program in our history.

Eight new Two Guys Discount Department Stores were opened during the year and several units were expanded in size.

At year end, there were thirty-three Two Guys Discount Department Stores in six states, with 4,642,000 sq. ft. of retailing space and 1,470,000 sq. ft. of warehousing facilities.

In 22 of our 33 locations we operate our own food supermarkets. In 1966, for the first time, we erected supermarket buildings adjacent to some of our stores to be rented to leading national and area food chains. We have completed food supermarket buildings in Broomall, Pa. and Menands, N. Y. and rented them on long term leases. Similar construction has been started in Newington, Conn., Springfield, Mass. and Hagerstown, Md. and long term leases are being negotiated with food chains for these locations.

Our future plans include both Two Guys free-standing units as well as shopping centers, utilizing the land we control to best advantage. For example, in our Rochester, N. Y. Hudson Ridge Shopping Plaza, we are negotiating leases with a supermarket, drug store, liquor store and a branch of a major bank. In Lancaster, Pa., where the Two Guys store is the "anchor" for our Lincoln Shopping Plaza, additional land has been purchased, construction of other stores has been scheduled and leases are being negotiated or have been concluded with a variety of tenants.

In 1967 we will open a store in Newark, N. J.—our first major metropolitan downtown store. We have entered into a long term lease for 210,000 sq. ft. of retailing space in the heart of downtown Newark's business section where there are more than 50,000 working people within a five minute walk from the store. We will occupy four floors, including the lower level and are remodeling these premises in keeping with the modern Two Guys Discount Department Store's decor.

To keep pace with our retailing growth in fiscal 1967, we purchased additional acreage on which we added two warehouses to our Hanover complex. A third was completed in March 1967.

The coming year will be primarily one of consolidation and strengthening of our present position. Our expansion program will continue on a more moderate scale.

We have already programmed our Cheektowaga, N. Y. (a suburb of Buffalo) and our Newark, N. J. store openings.

In future expansion, we plan to continue extending the perimeter of our retail horizon within the areas that can be serviced efficiently under our centralized warehousing, distribution and merchandising concept. At the same time, we will increase our penetration of markets in which we are presently operating.

TO OUR SHAREHOLDERS: (continued)

To assure the speedy flow of accurate and adequate information for maximum operating efficiency, our Electronic Data Processing Systems have been substantially expanded. While the cost of the expansion has been higher than anticipated and the accomplishments have not been as rapid as desired, our EDP is being geared to keep pace with the future growth of the business. The heavy capital outlays for conversion to magnetic tape computerization will give management, in the years to come, more rapid and more accurate information on which to base its decisions.

While we anticipate increased costs in some operational areas we will offset these wherever possible by increased sales volume and by maintaining tight controls of every aspect of our operations to assure maximum efficiency. In this way, where we are forced to increase mark-ups, we will maintain a competitive position without affecting our profitability.

To provide prompt decisions on matters of importance, the Board of Directors appointed an Executive Committee consisting of Frederick Zissu, Chairman, Murray J. Siegel, Donald B. Gomes and Leo Zwiebach. The Executive Committee may, during the intervals between the meetings of the Board of Directors, exercise all the power of the Board in the management of the business and the affairs of the company.

In October Donald B. Gomes, a Director of the Company, was appointed Executive Vice President. He has been associated with the Company in various divisions and capacities, rising through the ranks to his present position. He entered the company originally as a part-timer, became service manager, an Assistant Vice President, then Vice President prior to becoming Executive Vice President.

He replaces Jacob Stolbach, formerly Executive Vice President and Secretary, who after many years of service resigned in October.

Bernard Marcus was appointed a Vice President and Divisional Merchandise Manager (Toiletries, Electrical Appliances, Sporting Goods, Pets) and H. Robert Zimmerman a Vice President and Divisional Merchandise Manager (Jewelry, Giftwares, Luggage, Housewares).

Alvin C. Martin, a member of Zissu, Halper and Martin, General Counsel for the Company, was appointed Secretary of the Company.

Boris Weiss was appointed Controller for the Company. His experience and background in retailing controls are in keeping with the company's program for increasing operating efficiency and maintaining tight controls as our growth and expansion continues.

Vornado has that incalculable quality called spirit. We have a strong young management team which we sincerely believe is second to none in the entire retail industry. It is their efforts which have contributed so largely to the company's progress during the past year, and it is their ability on which we depend to meet the challenges of the years ahead. We take this occasion to express our appreciation to our ever-widening list of suppliers for their cooperation during the past year and to the shareholders for their confidence in and encouragement to management.

Sincerely,

FREDERICK ZISSU
Chairman of the Board

MURRAY J. SIEGEL
President and Chief Executive Officer

April 28, 1967

REVIEW OF OPERATIONS
FISCAL YEAR ENDED JANUARY 31, 1967

In its 20th year Vornado again reached new record levels for sales and earnings.

SALES

Net sales for the fiscal year ended January 31, 1967 amounted to $331,867,634, an increase of 28% over the $258,855,428 reported for the previous twelve month period. The gain of $73,012,206 in over-all sales volume resulted from increased sales in previously existing units as well as from the addition of newly built stores.

Leased department sales for the 1967 fiscal year amounted to $13,273,281 or only 4% of the total as compared to 4.5% for the previous year.

EARNINGS

Net earnings after taxes were $8,175,679, equivalent to $2.24 per share on the 3,642,534 shares of common stock outstanding at the end of the fiscal year. The earnings were after deductions for depreciation and amortization of $3,987,367.

Earnings after Federal income taxes in the previous twelve-month period ended January 31, 1966, amounted to $8,011,748, or $2.29 per share on 3,492,592 shares.

Thus, during the past fiscal year, net earnings increased by 2% on a sales increase of 28%.

FINANCIAL POSITION

During the year, shareholders' equity increased from $39,191,000 to $49,038,000 or $13.46 per share. Net working capital increased from $24,418,000 to $31,642,000. The current ratio at year end was 1.70 to 1.

Long term debt, less installments due within one year, was $63,150,000 as compared to $42,966,000 at January 31, 1966. This represents first and second mortgages on real property amounting to $45,352,000 and other long-term debt amounting to $17,798,000.

OPERATING FACILITIES

Eight new stores totalling 1,030,000 square feet of retailing space were opened during the year: Broomall (a suburb of Philadelphia), Bethlehem and Lancaster in Pennsylvania; Vineland, New Jersey; Springfield, Massachusetts; Rochester, New York, and Dundalk (a suburb of Baltimore) and Hagerstown in Maryland.

84,000 square feet of retailing space was added to previously existing stores to provide for additional Lumber, Garden and Nursery, Automotive, Fabric and Pharmacy departments.

This brought our total retail selling areas to approximately 4,642,000 square feet. Additional facilities were added to our Hanover Warehouse Complex bringing our total warehousing space to approximately 1,470,000 square feet.

Vornado® -20 YEARS OF GROWTH THROUGH FLEXIBILITY

The Two Guys story is one of pioneering and innovation while at the same time following consistent basic policies. The proof of management's ability, foresight and flexibility is that the Company has grown from one small store 20 years ago, to a chain of 33 stores, operating in six states, with sales of approximately a third of a billion dollars in the past fiscal year. With a growth paralleling that of discount retailing the Company looks forward to maintaining a position of leadership in the industry as it continues to grow through the years ahead.

1947.......

When Two Guys opened its first store, a 20x40 foot unit in Harrison, New Jersey, discount retailing was in its infancy—still unrecognized as a major retailing development of the future. Two Guys sold television sets primarily. Its staff consisted of a half-dozen people. From its inception the fledgling company followed the basic philosophies that shaped its development in the years ahead—discount prices, customer convenience and service combined with low-cost, efficient operation. The "do-it-yourself" policy and the centralized concept came into being immediately. As it grew, Two Guys set up its own warehouse, trucking and service departments.

In its early years, the Company branched out into other lines—refrigerators, washers, dryers, small appliances, toys, housewares, seasonal merchandise and a handful of specialty items.

During these formative years the Company experimented with various types of selling units—including satellite stores of 800 to 1000 square feet and buses equipped as mobile showrooms. To meet the needs of a booming population whose income was increasing and which was migrating to the suburbs, the Company opened several larger stores in blossoming communities and on major arterial highways. Stores were opened, closed, enlarged in its continuing search for the ideal discount store concept as the basis for its future growth and expansion.

1952.......

Discount retailing was beginning its early growth but was still a minor factor in the overall distribution picture. By this time, the Two Guys chain numbered nine stores, ranging in size from 4000 to 25,000 square feet and its annual sales volume had climbed to $13 million. Warehousing and trucking facilities had been increased to meet the needs of the growing chain.

The one-stop shopping concept with adequate parking facilities was beginning to take shape—and was definitely the pattern of things to come.

Merchandise lines were being broadened and the Company added apparel, domestics, shoes and jewelry. At the same time, housewares, hardware and sporting goods which had been carried heretofore on a limited basis were expanded into complete departments—with some of them being leased since both capital and specialized management personnel were limited.

Realizing the need for a faster flow of information, and that this need would increase greatly as it continued to grow, the Company leased direct telephone lines from its central headquarters to the stores and began a limited application of automated data processing—one of the first retailers to do so.

1956......

Discount retailing was now growing rapidly and getting ready to take its place in the mass merchandising picture. Two Guys opened its first food market, marking a major milestone in the development of its one-stop shopping concept. During the years following, food supermarkets were included in its new stores wherever practical.

With its improved financial position the Company began to absorb leased departments, including their management and personnel. Under Company management the efficiency and profitability of these departments were increased substantially.

1959.......

Discount retailing was being recognized as a retailing evolution, or as some called it, a retailing revolution—and Vornado was an important part of discount retailing. In November of that year, Two Guys from Harrison merged with O. A. Sutton Corporation Inc., manufacturers of Vornado brand air conditioners, fans and heaters, adopting Vornado Inc. as its corporate name. Since then the Company has broadened, diversified and extended the Vornado label to cover more than 100 products.

Five new stores with a combined area of 639,000 square feet were opened. The Company was now a 15 store chain operating in four states. The stores ranged in size from 101,000 to 187,000 square feet (except for one 60,000 square foot unit) with a total retailing area of 1,520,000 square feet. Warehousing facilities had been expanded from 250,000 square feet to a 665,000 square foot facility in Garfield, New Jersey and the trucking fleet had grown to nearly 175 vehicles.

The number of employees had risen to over 2500 and the management training program that had been inaugurated several years earlier was further expanded in anticipation of continuing growth.

With this expansion the Company reached an annual sales volume of $100,000,000 in 1960.

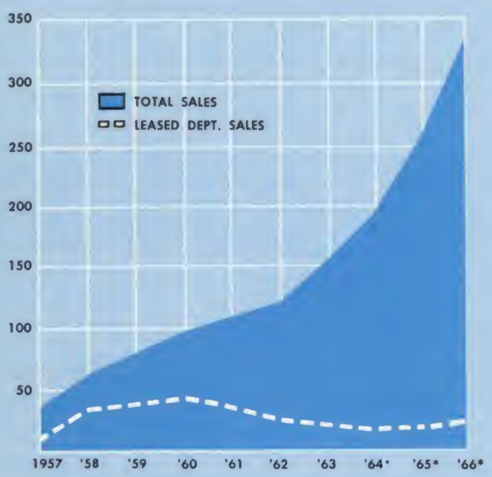
1962.......

As income levels rose and the consumer public increasingly showed its appreciation of the modern Two Guys Discount Department Stores, the Company stepped up its modernization program. The stores were kept up-to-date with new fixturing and decor. Merchandise lines had been further broadened and the one-stop shopping concept was well developed with ten Two Guys food supermarkets in the New Jersey stores and four in out-of-state stores. With sales volume climbing steadily, the Company opened three additional stores. In line with Vornado's centralized warehousing concept, 60 acres were purchased in Hanover, New Jersey and an automated apparel warehouse built—the first unit of a new warehouse complex. Additional modern warehouse facilities were constructed during the years that followed as the need arose.

By 1964 discount retailing had become an important factor and was recognized as a permanent facet of modern retailing. Vornado's sales were now in excess of $200 million annually and the Company was an acknowledged leader in the field. By 1964 most of its leased departments had been absorbed so that the remaining lessees accounted for only 5.5% of Vornado's total sales as compared with 46.7% in 1959.

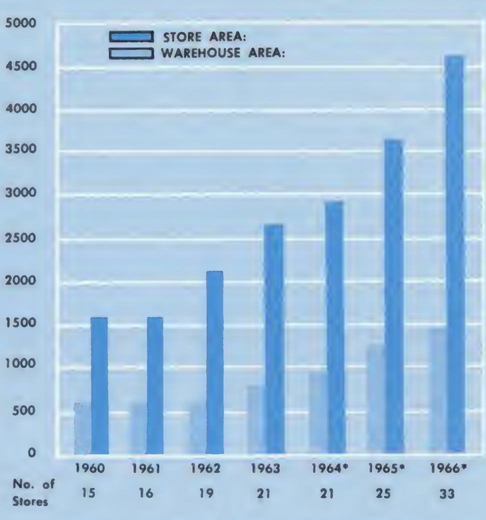
To maintain its tight, effective operational and merchandising control, the Company installed the Teletypewriter which provided instant written communication to and from all its stores and the central home office.

By 1965 there were 25 Two Guys Discount Department Stores, operating in five states, with a total retailing area of 3,531,000 square feet, serviced by 1,250,000 square feet of warehouse facilities and a fleet of 325 vehicles. Two Guys was now providing employment for more than 9500 people with its expanded on-the-job training program continuing to produce a supply of management personnel to keep pace with the Company's growth.



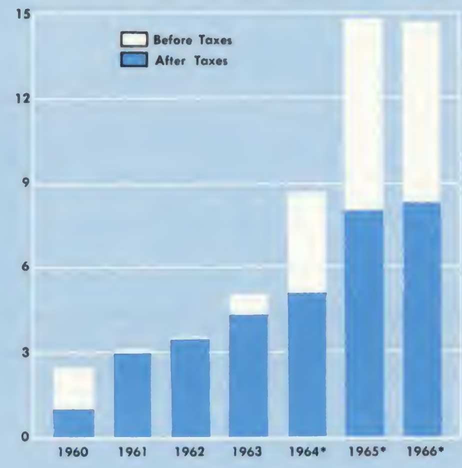
SALES
IN MILLIONS OF DOLLARS

Vornado's annual sales volume in 1966 exceeded $331 million as compared to $99 million in 1960.



SELLING AND WAREHOUSE AREA‡ IN SQUARE FEET (000 OMITTED)

Retailing area expanded from 1,520,000 square feet in 1960 to 4,642,000 square feet. Warehousing facilities increased from 665,000 square feet to 1,470,000 square feet.



NET EARNINGS
IN MILLIONS OF DOLLARS

Earnings before Federal taxes rose from $2,460,000 in 1960 to $14,275,000. Net earnings after taxes rose from $1,179,000 to $8,175,000.

* Fiscal years ended January 31, 1965, 1966 and 1967 respectively. All other fiscal years ended August 31 in year shown.
‡ Square footages and number of stores at end of fiscal year shown.

1966.......

Discount retailing had now become a major segment of the market. 1966 also marked a new high in the Company's rate of expansion. Eight new stores, with a combined retailing area of 1,030,000 square feet were added during the year, as well as two additional warehouses. The Company made its first entry into Massachusetts with the opening of its store in Springfield. With a total of 33 stores operating in six states, Two Guys retailing facilities now totalled 4,642,000 square feet with 1,470,000 square feet of warehousing. The truck fleet totalled 500 vehicles. Vornado now employed more than 15,000 people at its peak while sales volume reached over $331 million.

In line with this growth the Company had greatly increased its use of Electronic Data Processing and was continuing its plans to make the costly transition from punch-cards to the faster, more sophisticated magnetic tape system in anticipation of the need for more and faster information. Two Honeywell H200 computers were already in operation and the problems involved in the switchover were being overcome.

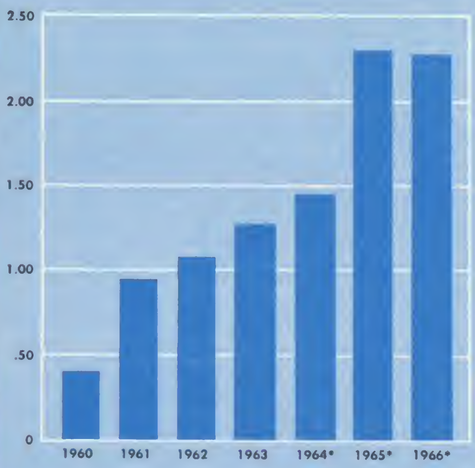
As part of its program to improve efficiency and reduce operating costs, the Data Speed System (Addo-X and Dataphone) was tied in with Electronic Data Processing. This additional automation was aimed at speeding up inventory reports and store re-ordering of merchandise to insure a prompt, continuous flow of merchandise into the stores and to provide the Company with a fast, versatile and complete communication system so essential to its continuing growth.

1967.......

A new facet of the Company's growth will be created with the opening of a Two Guys Discount Department Store in the heart of a major metropolis.

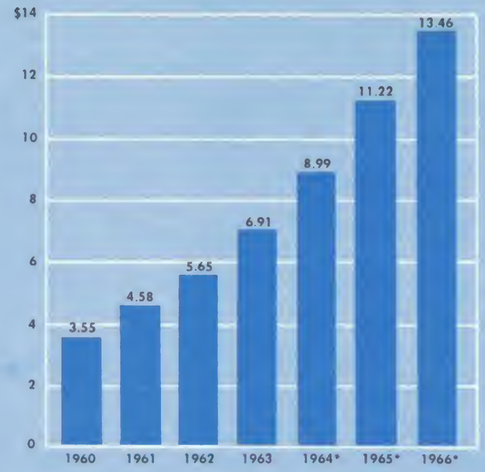
A long term lease has been negotiated for 210,000 square feet of retailing space in the heart of downtown Newark, New Jersey. The premises are being redecorated in keeping with Two Guys modern store decor and will provide a new dimension in discount shopping in downtown Newark.

A Two Guys store in Buffalo (Cheektowaga), New York has been scheduled and construction started. Additional expansion is presently being planned and will be scheduled as economic and market conditions warrant.



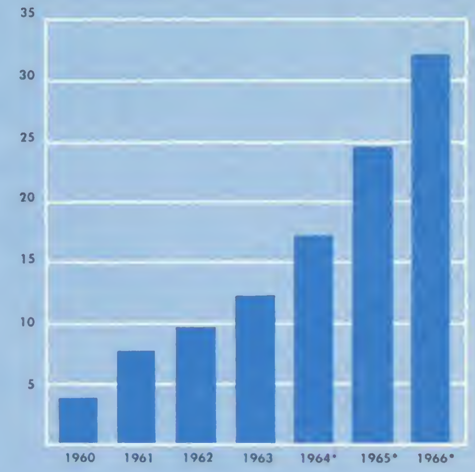
EARNINGS PER SHARE †
(AFTER TAXES)

Earnings per share, after taxes rose to $2.24 in 1966 as compared to $.40 in the year 1960.



BOOK VALUE PER SHARE†

The shareholders equity has grown from $10,568,000 in 1960 to $49,038,000, representing a rise in book value per share from $3.55 to $13.46.



NET WORKING CAPITAL
IN MILLIONS OF DOLLARS

The amount of net working capital increased from $3,570,000 in 1960 to $31,642,000.

† Based on number of shares outstanding at end of fiscal year, with all years prior to 1967 adjusted for 2½ for 1 split effective March 28, 1966.

1968 and beyond.......

The past 20 years are but a prologue to the future. The Company's progress has been based on pioneering, innovation, and the testing and proving of new retailing methods and techniques.

An in-depth management team provides the know-how, operating efficiency and flexibility that will enable Vornado to continue its profitable growth in the future.

The Centralized Concept—centralized management, merchandising, advertising and warehousing—will continue to prove most effective in maintaining a tightly controlled, highly efficient, low cost operation.

The Real Estate Department has provided the site locations that made the Company's scheduled growth possible and continues to develop additional site locations for the Company's future expansion.

Planning, Engineering and Construction Departments make possible the low occupancy cost the Company enjoys in all its locations. They also provide the speed and flexibility in construction and modernization that enables management to adjust its expansion schedules quickly as conditions indicate.

A complete, centralized Advertising and Sales Promotion Department continues to provide flexibility and speed in merchandising, with advertising geared to varying geographic and climatic conditions for the most effective use of every advertising dollar.

In retrospect the Company's growth seems spectacular—an annual sales volume of a third of a billion dollars in only 20 years. Looking back, however, it becomes obvious that its consistent growth was based on sound basic policies and principles, sound fiscal and operational management. The Company is well structured financially and well equipped in every respect to keep pace with the continuing growth of retailing.

Management looks to the future with optimism, confident that the Company's proven strength and ability will enable it to meet the challenges of the future as successfully as it has met them in the past and that Vornado will continue to maintain its position of leadership in the industry.

SPRINGFIELD, MASS., Sept. 1966
111,000 Square Feet

BETHLEHEM, PA., May 1966
141,000 Square Feet

ROCHESTER, N. Y., Oct. 1966
142,000 Square Feet

BROOMALL, PA., Mar. 1966
130,000 Square Feet

Vornado® INC. GROWTH IN 1966

LANCASTER, PA., Nov. 1966
112,000 Square Feet

VINELAND, N. J., June 1966
143,000 Square Feet

HAGERSTOWN, MD., Oct. 1966
104,000 Square Feet

DUNDALK, MD., Aug. 1966
147,000 Square Feet

Vornado® INC. AND SUBSIDIARIES AND RELATED REAL ESTATE CORPORATIONS

	JANUARY 31 1967	JANUARY 31 1966
ASSETS		
Current Assets:		
Cash	$ 8,646,428	8,523,910
Receivables and Advances to Suppliers	5,394,624	2,568,167
Construction Costs to be Recovered Through Long-term Financing	—	1,303,566
Inventories, at Lower of Cost or Realizable Market	61,717,174	42,888,440
Prepaid Expenses	803,730	631,402
Total Current Assets	76,561,956	55,915,485
Other Assets:		
Mortgages Receivable, Less Installments Due in One Year and Reserve (Note 2)	1,753,864	1,902,203
Rent, Utility and Other Deposits	1,997,760	1,636,053
Miscellaneous	398,852	270,033
Total Other Assets	4,150,476	3,808,289
Property and Equipment, at Cost (Notes 2, 4 and 6):		
Land, Parking Areas and Buildings	57.633,164	40,672,904
Furniture, Equipment and Leasehold Improvements and Costs	28,107,040	19,535,253
Construction in Progress	1,816,715	1,637,770
	87,556,919	61,845,927
Less Accumulated Depreciation and Amortization	11,396,951	8,805,203
Net Property and Equipment	76,159,968	53,040,724
Cost of Leases and Occupancy Rights, Less Accumulated Amortization of $904,401 ($748,255 in 1966)	660,599	816,745
Debt Discount and Expense	1,025,532	1,012,132
	$158,558,531	114,593,375

See accompanying Notes to Financial Statements.

COMBINED BALANCE SHEET JANUARY 31, 1967

(with Comparative Figures at January 31, 1966)

	JANUARY 31 1967	JANUARY 31 1966
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes Payable—Banks	$ 5,500,000	—
Notes Payable—Other	1,197,927	1.500.621
Long-term Debt Installments Due within One Year	2,320,629	1,522,369
Accounts Payable, Trade	27,658,986	20,390,959
Federal Income Taxes (Note 3)	3,283,394	4,495,896
Other, Including Accruals	4,958,131	3,587,969
Total Current Liabilities	44,919,067	31,497,814
Leased Department Rental and Other Security Deposits	521,264	379,823
Long-term Debt (Note 4):		
5% Convertible Subordinated Debentures	4,324,700	5,235,900
3.10% Junior Subordinated Note	2,129,000	2,174,000
Term Bank Loan	12,600,000	3,500,000
Other, Principally Real Estate Mortgages	46,417,896	33,578,173
	65,471,596	44,488,073
Less Installments Due within One Year	2,320,629	1,522,369
Total Long-term Debt	63,150,967	42,965,704
Deferred Federal Income Taxes (Note 3)	928,525	559,398
Stockholders' Equity:		
Common Stock of 4¢ Par Value per Share. Authorized 6,250,000 Shares; Issued 3,642,534 Shares (3,492,592 in 1966) (Note 5)	145,701	139,704
Capital Stock of Related Real Estate Corporation	100	100
Additional Capital	19,368,908	17,702,512
Retained Earnings (Including Related Real Estate Corporations) (Notes 1 and 4)	29,523,999	21,348,320
Total Stockholders' Equity	49,038,708	39,190,636
Contingent Liabilities and Commitments (Notes 3 and 6).		
	$158,558,531	114,593,375

Vornado® INC. AND SUBSIDIARIES
AND RELATED REAL ESTATE CORPORATIONS

STATEMENT OF COMBINED EARNINGS AND RETAINED EARNINGS

Year Ended January 31, 1967 (with Comparative Figures for 1966)

	1967	1966
SALES AND OTHER REVENUES:		
Net Sales, Including Leased Departments	$331,867,634	258,855,428
Less Sales of Leased Departments	13,273,281	11,630,036
Net Sales, Excluding Leased Departments	318,594,353	247,225,392
Other Revenues, Net	2,634,484	2,100,563
Total Sales and Other Revenues	321,228,837	249,325,955
COSTS AND EXPENSES:		
Cost of Goods Sold	236,182,559	184,599,442
Operating and Administrative Expenses, exclusive of those shown below	57,044,413	39,766,899
Depreciation and Amortization	3,987,367	3,196,322
Taxes, Other than Federal Income Taxes	5,195,238	3,733,661
Rent	1,060,265	1,160,103
Interest and Debt Expense	3,483,316	2,132,780
Total Costs and Expenses	306,953,158	234,589,207
Earnings Before Federal Income Taxes	14,275,679	14,736,748
Federal Income Taxes (Note 3)	6.100,000	6,725,000
Net Earnings	8,175,679	8,011,748
Retained Earnings at Beginning of Year	21,348,320	13,336,572
Retained Earnings at End of Year (Note 4)	$ 29,523,999	21,348,320

STATEMENT OF COMBINED ADDITIONAL CAPITAL

Year Ended January 31, 1967 (with Comparative Figures for 1966)

	1967	1966
Balance at Beginning of Year	$ 17,702,512	16,046,207
Add:		
Excess of consideration received over aggregate par value of shares issued on exercise of options for 96,375 shares of common stock (111,125 shares in 1966), including Federal Income Tax reduction of $95,395 ($163,000 in 1966) accruing to the Company as a result of these transactions (Note 3)	795,316	987,523
Excess of purchase price over par value of 105,000 shares of common stock issued on exercise of purchase warrant	—	667,800
Excess of principal amount of 5% convertible subordinated debentures converted over par value of 53,566 shares (68 shares in 1966) of common stock issued, cash in lieu of fractional shares and related unamortized debt expense	871,080	982
Balance at End of Year	$ 19,368,908	17,702,512

See accompanying Notes to Financial Statements.

COMBINED SUMMARY OF CHANGES IN WORKING CAPITAL

Year Ended January 31, 1967 (with Comparative Figures for 1966)

	1967	1966
SOURCES OF FUNDS:		
Net Earnings	$ 8,175,679	8,011,748
Adjustment for Non-Cash Items Charged to Earnings, Principally Depreciation and Amortization	4,445,963	3,456,712
Total from Operations	12,621,642	11,468,460
Mortgage Debt Incurred by Related Real Estate Corporations	15,565,000	11,125,000
Borrowings Under Term Bank Loans	9,100,000	3,500,000
Sale of Common Stock on Exercise of Options and Warrant	692,186	1,534,505
Other	—	34,916
	$ 37,978,828	27,662,881
APPLICATION OF FUNDS:		
Additions to Property and Equipment, Net of Disposals	26,165,502	18,979,851
Reduction in Long-Term Debt	3,569,493	789,441
Increase in Rent Security and Other Deposits	361,707	430,046
Other, Including Additional Income Taxes for Prior Years	656,908	—
	30,753,610	20,199,338
Increase in Working Capital	7,225,218	7,463,543
	$ 37,978,828	27,662,881

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

JANUARY 31, 1967

(1) Basis of Presentation:

The accompanying combined financial statements combine the consolidated financial statements of Vornado, Inc. and its subsidiaries with the consolidated financial statements of related real estate corporations. The following condensed balance sheet sets forth the consolidated accounts of the real estate corporations (before intercompany eliminations) as included in the combined balance sheet at January 31, 1967 and 1966:

Assets	1967	1966
Current Assets:		
Cash	$ 3,395	$ 1,515
Deposit	18,850	—
Due from Vornado, Inc. and Subsidiaries	2,675,456	916,103
Total Current Assets	2,697,701	917,618
Property and Equipment, at Cost	48,295,025	29,245,854
Less Allowance for Depreciation	1,804,533	904,559
Net Property and Equipment	46,490,492	28,341,295
Debt Expense, Unamortized	236,862	97,523
	$49,425,055	$29,356,436

Liabilities	1967	1966
Current Liabilities:		
Long-Term Debt Installments Due within One Year	$ 810,134	$ 546,523
Accrued Interest on Debt and Other Liabilities	434,137	308,764
Due to Vornado, Inc.	9,578,269	3,215,021
Total Current Liabilities	10,822,540	4,070,308
Long-term Debt due after One Year	38,792,941	25,388,684
Stockholders' Equity (Deficit):		
Capital Stock	100	100
Deficit from Operations	(190,526)	(102,656)
	(190,426)	(102,556)
	$49,425,055	$29,356,436

Operations of the related real estate corporations for years ended January 31, 1967 and 1966 resulted in net losses of $87,869 and $61,569, respectively.

The Company is in a position to acquire for a nominal amount all of the capital stock of the corporation, which in turn owns all of the capital stock of corporations owning certain store and warehouse properties

leased and operated by the Company and accordingly, the accompanying combined financial statements have been prepared as if the Company had acquired the capital stock of these related real estate corporations.

(2) Mortgages receivable:

Mortgages receivable, net of installments due within one year and bearing interest at rates of 5% and 6% per annum are as follows:

	1967	*1966*
Affiliated co-partnerships	$ —	$3,694,153
Held by others	4,199,842	504,268
	4,199,842	4,198,421
Less reserve	2,445,978	2,296,218
Net mortgages receivable	$1,753,864	$1,902,203

The mortgage balances result primarily from three sale and leaseback transactions with an officer and affiliated co-partnerships during 1961. Ownership of the properties was subsequently transferred to an unrelated party. The selling price of these properties (satisfied in part by purchase money mortgages providing for amortization to commence in five years) was $1,609,898 in excess of the depreciated cost. As the terms of the sales and leasebacks provide repurchase options during the five years 1966 to 1971 at the original selling prices, the excess has been applied as a reserve against the face amount of the mortgages receivable. Also, an additional reserve is being provided by an annual charge to earnings which is equivalent to the depreciation, net of future tax benefit, that would have been provided on such properties had they not been sold. Should the properties be repurchased the charge in lieu of depreciation will be included in the accumulated depreciation accounts or will provide a means of equalizing annual rentals should the properties not be repurchased. Subsequent to January 31, 1967, the Company repurchased two of the above mentioned properties.

(3) Federal income taxes:

The Company has received a statutory notice of income tax deficiencies for the taxable years ended in 1959 and 1960, and has petitioned the Tax Court for a redetermination ordering and deciding that there is no deficiency in income taxes for those years. The deficiencies found by the Internal Revenue Service are based primarily on disallowance of deductions claimed in those years for net operating losses incurred by the Company prior to its merger with Two Guys From Harrison, Inc., and carried forward to the years examined. Similar adjustments to taxable income have been proposed for all of the taxable years affected by such disallowances, and the alleged deficiencies for all years, including interest accumulations to date net of tax, would amount to approximately $5,525,000 at January 31, 1967. The allegations made by the Internal Revenue Service and the Company's basis for resistance to the assessment of additional tax liability involve complex technical problems and the amount of liability which will ultimately be determined for the years involved cannot be estimated at this time, and accordingly no provision therefor has been made. With the exception of this matter, the examination of the Company's returns through January 31, 1965, has been completed and all deficiencies paid. The items included in the provision for Federal income taxes are as follows:

	1967	*1966*
Amount currently payable, net of investment credits of $541,000 and $319,000 for the years 1967 and 1966, respectively	$5,729,000	$6,480,000
Deferred or (prepaid) relating to accelerated depreciation for tax purposes, charges in lieu of depreciation, expenses in connection with agreements relating to former officer-directors, etc.	276,000	82,000
Charge equivalent to amount of reduction of current taxes as a result of the exercise of certain stock options, credited to additional capital	95,000	163,000
	$6,100,000	$6,725,000

(4) Long-term debt:

The 5% Convertible Subordinated Debentures are due March 1, 1982 and are convertible into shares of common stock of the Company at a conversion price per share of $17.00, if converted prior to March 1, 1968, and at $19.60 per share thereafter. Mandatory annual sinking fund payments of $100,000 commence on March 1, 1968, for a period of five years and thereafter at the rate of 10% of the principal amount outstanding on September 1, 1972. The principal amount of debentures converted subsequent to September 1, 1967, may, subject to some limitations, be applied in reduction of the sinking fund obligations due thereafter. The debentures may be redeemed at gradually decreasing redemption prices ranging from approximately 104% of principal amount to face amount after February 28, 1981.

The 3.10% Junior Subordinated Note due May 1, 1976 provides for annual fixed sinking fund payments; $46,000 for the next fiscal year and in increasing annual amounts to $59,000 due on May 1, 1975, with the balance of $1,660,000 payable on May 1, 1976. The note contains prepayment and repurchase provisions.

On May 25, 1966, the Company entered into a term loan agreement with three banks providing for revolving credit of up to $15,000,000 to May 31, 1967, to finance the Company's construction program. At January 31, 1967, $12,600,000 had been borrowed under the agreement. The terms provide for payment over a period of approximately six years from the date of borrowing, interest rates of ½ to ¾% above the prime rate, commitment fees and prepayment privileges. Among other covenants, the Company must maintain minimum consolidated working capital (excluding related real estate corporations) of at least $18,000,000 prior to February 1, 1967 and increasing amounts thereafter, and limit the aggregate of all dividend payments (other than stock dividends) and other distributions and payments to stockholders to 25% of its consolidated net earnings subsequent to January 31, 1965. At January 31, 1967 approximately $4,084,000 of the consolidated retained earnings, as defined, was free of restrictions.

Other long-term debt of the Company and its subsidiaries and related real estate corporations consists of first and second mortgages on real property of $45,352,000 and notes payable to others, at interest rates for the most part between 5% and 6%.

The book value of property pledged under mortgages, the Term Bank Loan and notes secured by trust receipts amounted to approximately $57,560,000 at January 31, 1967.

(5) Common shares reserved for options and conversions:

Options for 245,625 common shares were outstanding at January 31, 1967, of which 194,000 shares were exercisable. The option price per share ranges from $6.23 per share to $12.70 per share with an aggregate option price for all shares, if exercised, of $2,229,292. During the year ended January 31, 1967, options for 96,375 shares were exercised at a total option price of approximately $692,000. No options were granted during the year and options for 1,500 shares were cancelled.

At January 31, 1967, 254,394 shares were reserved for the conversion of 5% Convertible Subordinated Debentures.

(6) Long-term leases and contingent liabilities:

Substantially all of the leases covering the Company's stores, warehouses and other properties, including those mentioned in Notes 1 and 2 are long-term in nature and had an average unexpired term of twenty-three years at January 31, 1967. Average annual rentals during the next five years, exclusive of taxes, insurance and maintenance, approximate $4,850,000 per annum, including $3,960,000 payable to the related real estate corporations. Rents paid to the related real estate corporations have been eliminated in the combined financial statements.

The Company is contingently liable for payments under certain mortgages relating to properties sold. At January 31, 1967 such mortgages had unpaid balances of approximately $2,039,000. In the opinion of management, the possibility of any loss related to these mortgages is extremely remote.

ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS

TO THE STOCKHOLDERS AND BOARD OF DIRECTORS
VORNADO, INC.:

We have examined the combined balance sheet of Vornado, Inc. and subsidiaries and related real estate corporations as of January 31, 1967 and the related statements of combined earnings and retained earnings and additional capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to the final determination of the net operating loss carry-forward as an offset against taxable earnings in prior years (see Note 3 of Notes to Financial Statements), the accompanying combined balance sheet and related statements of combined earnings and retained earnings and additional capital present fairly the combined financial position of Vornado, Inc. and subsidiaries and related real estate corporations at January 31, 1967 and the combined results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying combined summary of changes in working capital presents fairly the information shown therein.

PEAT, MARWICK, MITCHELL & CO.

Newark, New Jersey
April 28, 1967

Vornado® INC. AND SUBSIDIARIES
AND RELATED REAL ESTATE CORPORATIONS

†000—Omitted

OPERATING RESULTS

Net Sales, including Leased Departments† . . . . .
Net Sales, exclusive of Leased Departments† . . . . .
Net Sales, Leased Departments† . . . . .
Percentage of Leased Department Sales to Total . . . . .
Depreciation and Amortization† . . . . .
Net Earnings (before Federal Income Tax)† . . . . .
Provision for Federal Income Tax† . . . . .
Net Earnings after Taxes† . . . . .
Pre-tax Earnings per Share . . . . .
Earnings after Taxes per Share . . . . .
Number of Shares Outstanding[1] . . . . .

ASSETS AND CAPITAL

Net Working Capital† . . . . .
Working Capital Ratio . . . . .
Property and Equipment at Cost† . . . . .
Property and Equipment after Depreciation† . . . . .
Long Term Debt† . . . . .
Shareholders' Equity† . . . . .
Equity per share . . . . .

FACILITIES

Number of Stores . . . . .
Total Store Area (square feet) . . . . .
Warehouse Area (square feet) . . . . .

[1] Based on number of shares outstanding at end of fiscal year with all years prior to 1967 adjusted for 2½ for 1 split effective March 28, 1966.

FIVE YEAR FINANCIAL AND STATISTICAL HIGHLIGHTS‡

1966*	1965*	1964*	1963	1962
331,867	258,855	200,149	154,425	115,124
318,594	247,225	189,135	139,340	99,056
13,273	11,630	11,014	15,085	16,068
4.0%	4.5%	5.5%	9.7%	13.9%
3,987	3,196	2,772	1,858	1,356
14,275	14,737	8,774	4,640	3,559
6,100	6,725	4,075	510	58
8,175	8,012	4,699	4,130	3,501
$ 3.92	$ 4.22	$ 2.68	$ 1.42	$ 1.09
$ 2.24	$ 2.29	$ 1.43	$ 1.26	$ 1.07
3,642,534	3,492,592	3,276,417	3,276,483	3,276,483
31,642	24,418	16,954	12,025	9,943
1.70-1	1.78-1	1.72-1	1.52-1	1.49-1
87,557	61,846	43,699	26,184	20,121
76,160	53,041	36,756	21,397	16,784
63,150	42,966	29,130	16,153	13,814
49,038	39,191	29,444	22,637	18,506
$ 13.46	$ 11.22	$ 8.99	$ 6.91	$ 5.65
33	25	21	21	19
4,642,000	3,531,000	2,924,000	2,603,000	2,195,000
1,470,000	1,250,000	1,000,000	750,000	665,000

* Fiscal year ended January 31, 1967, 1966 and 1965 respectively. All other fiscal years ended August 31 in year shown.

‡ Audited figures for the 5 months ending January 31, 1964, have been omitted because comparative figures are not available. In January, 1964, the fiscal year ending was changed from August 31 to January 31.

LOCATION	SQUARE FOOT AREA‡	OPENING DATE
NEW JERSEY		
1. Garfield	101,000*	Sept. 1961
2. Hanover	160,000*	Oct. 1962
3. Dover	135,000*	May 1964
4. Totowa	193,000*	Feb. 1959
5. Hackensack	164,000*	Sept. 1963
6. North Bergen	143,000*	Oct. 1959
7. Jersey City	200,000*	Mar. 1965
8. Kearny	201,000*	Sept. 1959
9. Woodbridge	176,000*	Sept. 1959
10. Union	220,000*	Oct. 1962
11. East Brunswick	196,000*	June 1957
12. Middletown	134,000*	Oct. 1963
13. Neptune	60,000	Oct. 1959
14. Atlantic City	130,000*	Aug. 1965
15. Cherry Hill	165,000*	Oct. 1964
16. Bordentown	159,000*	Apr. 1958
17. Watchung	144,000	May 1959
18. Vineland	143,000*	June 1966
CONNECTICUT		
19. Newington	104,000	Nov. 1965
NEW YORK		
20. Menands (Albany)	104,000	Nov. 1965
21. Schenectady	115,000	May 1965
22. Rochester	142,000	Oct. 1966
PENNSYLVANIA		
23. Allentown	148,000*	Oct. 1957
24. Reading	122,000*	Aug. 1962
25. Levittown	104,000	Nov. 1964
26. Broomall	130,000	Mar. 1966
27. Bethlehem	141,000*	May 1966
28. Lancaster	112,000	Nov. 1966
MASSACHUSETTS		
29. Springfield	111,000	Sept. 1966
MARYLAND		
30. Baltimore	122,000*	May 1962
31. Glen Burnie	112,000	Sept. 1958
32. Dundalk (Baltimore)	147,000*	Aug. 1966
33. Hagerstown	104,000	Oct. 1966
TOTAL	4,642,000	

ADDITIONAL STORES TO BE OPENED DURING 1967

34. Newark, N. J.	210,000	
35. Buffalo, N. Y.	122,000	
36. New London, Conn. (to be scheduled).		

* Including Two Guys Food Supermarket.

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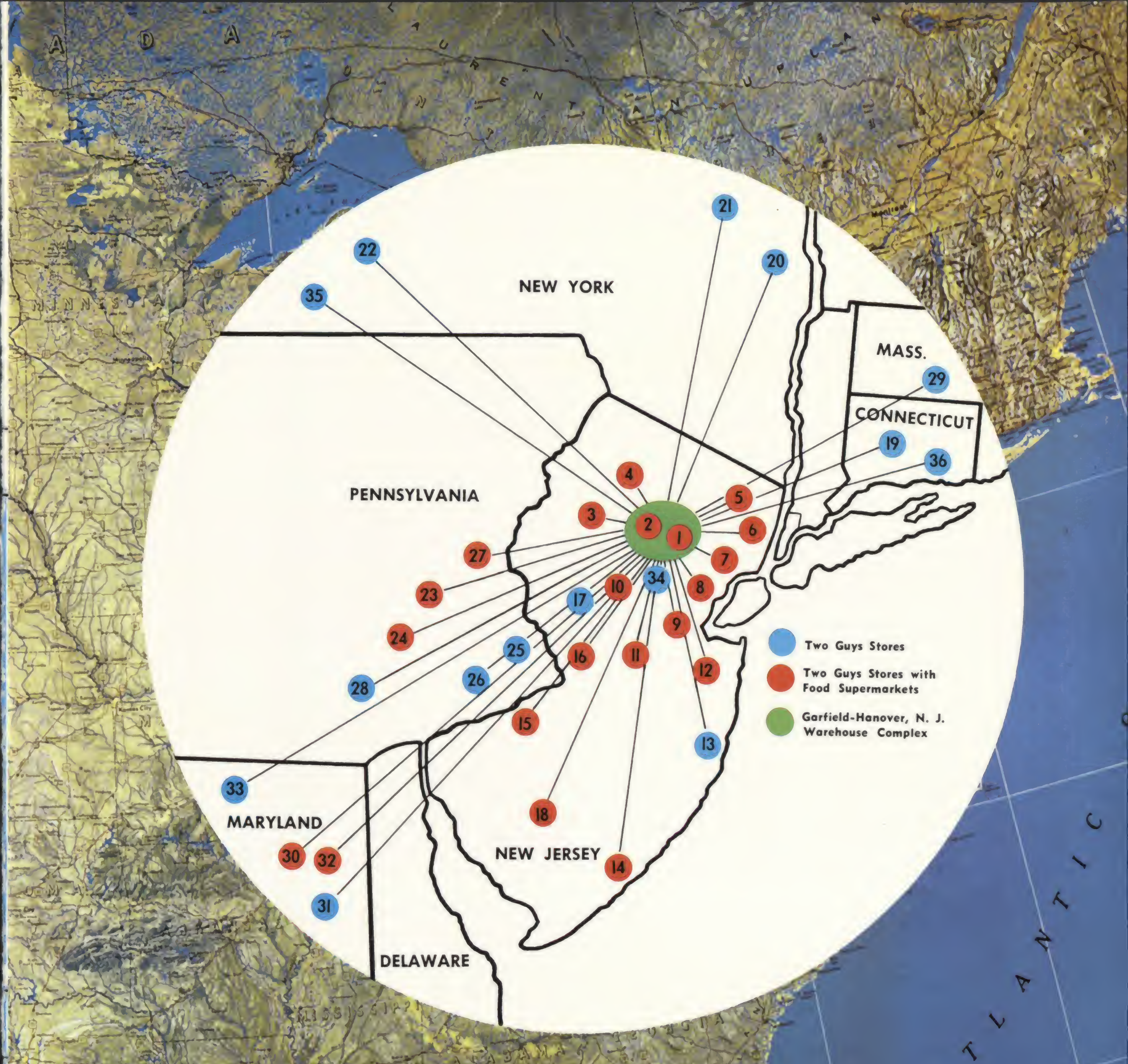
‡ Does not include peripheral utility buildings or mezzanine areas.



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